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REBUTTAL TESTIMONY

OF

KEITH P. HOCK

DOCKET NOS. 00-0259, et al.

On behalf of the Ameren Companies

Q. Please state your name.

A. Keith P. Hock.

Q. Did you previously submit direct testimony in this matter?

A. Yes, I did.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of witnesses testifying on behalf of the Staff, Unicom Energy, New Energy, and CILCO.

Q. Mr. Zuraski proposes additional adjustments to transform the wholesale price into a retail price. Does Ameren agree?

A. I would like to add some additional, general comments in response to all of the proposals for additional adjustments to the results of the Ameren MV index approach. The purpose of the index approach is to capture, as accurately as possible, and at least more accurately than the NFF method, the market value of power and energy. To that end it may be appropriate to adjust the wholesale values for any number of factors to more accurately establish the value of power and energy at retail. Indeed, several parties have offered testimony proposing such adjustments, and contending that without such adjustments, the Ameren index approach will understate the market value of power and energy at retail. While those parties may or may not be correct with respect to specific adjustments, one

thing is clear – the failure to reflect any one or more of those adjustments will not make the Ameren index approach less accurate than the NFF methodology. The Ameren index approach already produces a higher market value than the NFF approach; hence, if, as these parties contend, the Ameren index approach understates market value, the NFF result is even worse than we believed before. Accordingly, in the event that the parties are unable to develop an appropriate methodology for a particular adjustment to the index values, the Commission should not conclude as a result that the index approach is inaccurate and ratepayers and the competitive process would be better off with the NFF method. To the contrary, even without the adjustments that have been proposed in this case, the Ameren index approach is far superior to the NFF model.

Q. Several witnesses propose that the utilities use strictly uniform market value approaches. Does Ameren agree?

A. Mr. Eacret responds to the specifics of these proposals in his rebuttal testimony. I will offer a general response. Ameren does not oppose uniformity of methodology. However, uniformity only makes sense if what is being uniformly imposed makes sense. In the delivery services cases, the Commission uniformly imposed the NFF methodology, which has been an abject failure. No one's interest was well-served by the uniform NFF method. We are still experimenting to a great degree with competition, seeking the best method of valuing power and energy. It does not make sense at this point to require absolute uniformity. While we believe that Period A/B approach makes the most sense, Illinois Power may have greater success with the 12 month rolling average approach. Similarly, while we prefer the Into Cinergy values, the Into ComEd values may prove viable. We cannot and will not know, however, if the Commission does not permit some

modest experimentation, within the parameters of sound policy. Accordingly, we would like to see uniformity in the sense that the major utilities move away from the hopeless NFF method and toward more accurate market index measures. At this point, however, the Commission should allow utilities to experiment with different approaches as to those market index measures. The knowledge we will gain far outweighs whatever benefits might result from strict uniformity.

Q. **Nicor witness Bailey opposes the use of Periods A/B. Does Ameren** agree?

A. No. In the Ameren proposed tariffs, as in the currently effective ComEd market value tariff, there are two periods: A (the summer months) and B (the non-summer months). Periods A and B have significantly different prices because (as regulatory commissions have recognized for a long time, well before the advent of retail competition) the market values for power and energy differ between the periods. The recognition of different prices for different time periods sends proper price signals to users. Mr. Bailey asserts that reflecting the actual differences between summer and non-summer values in actual summer and non-summer prices "removes some customer incentive to procure competitive power." In other words, Nicor believes that a customer in non-summer months paying prices based on non-summer market values will not have an incentive to switch to another provider unless the customer is instead required to pay non-summer charges that reflect weighted average summer and non-summer values (i.e., we overstate the non-summer value). This concern underestimates the sophistication of both marketers and users. The use of a Period B does not hinder competition and does not remove the incentive to procure competitive power. In fact, since the Period B market values (MVs) more accurately reflect the price at which a RES should be able to serve a

customer during the non-summer period, the Period A/B structure should promote more efficient competition than Ameren's current NFF based market value tariff. Nicor's point (as I understand it), is that transition charges will be higher during non-summer months if the lower, more accurate non-summer values are used. That may be so, but that does not mean that competition will be harmed. Customers evaluating competitive options in February are unlikely to base their decisions on the economic advantages of a switch in February alone. Rather, customers are likely to look forward over a longer period. I would note that Nicor's proposal would not only lower transition charges in non-summer months, but also would increase transition charges in summer months by understating the value of power and energy during summer months. Thus, if, as Nicor contends, Ameren's method decreases incentives during non-summer months, it would be equally true that Nicor's method would decrease incentives during summer months, when power is at its most expensive. Ameren believes that incentives will not be decreased during either period. Again, customers will be making longer-term decisions, and marketers will explain the long-term ramifications to customers. That is part of marketing. You cannot fool customers by understating transition charges in a particular month or series of months. I would note that Period B also provides added flexibility for customers who are considering switching to delivery services for the first time. Customers electing the PPO are not required to commit to twelve months of service, but only to a term that expires at the next June meter read. At that time, the customer has the opportunity to reevaluate the available power supply options including a RES, a twelve month PPO agreement, or bundled service. Whether the customer takes service from a RES or under the PPO during Period B, the pricing of the transition charge should enable the customer to save

money when compared to the bundled rate. Surely, these savings provide an incentive for customers to switch to delivery services and procure power at a competitive market price.

Q. Mr. Bailey recommends that Ameren use the IP 12-month rolling average approach. Does Ameren agree?

A. No. Ameren prefers the Period A/B structure over the 12-month rolling average approach for several reasons. First, the additional accuracy afforded by the 12-month rolling average must be weighed against the additional complexity that a customer must sort through in order to make power supply decisions. The 12-month rolling average does not afford as much additional accuracy as would first appear. By far, the summer months have the highest prices and the greatest price volatility. Therefore, the best time to determine annual prices is as close to the summer months as possible. This is exactly what is done with the Period A/B methodology. Since there is very little price volatility during the non-summer months, the accuracy of the prices for this time period is not greatly affected by not recalculating each month. The increased complexity impacts not only customers but suppliers and host utilities as well. Suppliers, who have an increased administrative burden associated with continuously updating pricing models and marketing plans, have greater difficulty providing accurate proposals to customers. Customers also must continuously monitor pricing information in order to make accurate decisions. Finally, suppliers and customers have only a short window of time in which to make decisions in response to the updated pricing. Second, there would most likely be cases where the Period A/B methodology would provide more accurate pricing information. For example, a twelve-month forward view in September or October may include very inaccurate forward price information for the following summer. Since, as

already described, the summer months heavily influence the twelve month prices, a customer may choose not to switch to delivery services because of the unacceptable level of risk. Finally, the differences in the cost of implementing the Period A/B methodology and the 12-month rolling average are substantial. There is a higher cost of implementation with the 12-month rolling average due to system changes and customer service. More complex tariff modeling in the billing system and modifications to the Competitive Pricing System, a stand alone system used to calculate TCs, are examples of system changes that would make the cost of implementation higher with the 12-month rolling average methodology. Impacts to customer service include increased staffing of the call centers to answer customer inquiries, training of call center personnel, and more frequent mailings. The 12-month rolling average methodology also places a greater burden on the ICC Staff who must review informational filings every month.

Ameren does not dispute the utility of the 12-month rolling average methodology. However, for the reasons stated above, Ameren prefers the Period A/B methodology, and believes that, overall, it provides the best solution for the customers and suppliers in the Ameren service territory.

Q. Mr. Bailey states that Ameren has a PPO switching period equal to the applicable DASR. Is this correct?

A. No. Ameren currently requires customers to provide notification by the first business day of the month prior to the month of the requested switch to the PPO. For example, if a customer wants to switch to the PPO on the meter read date in October, then notice must be given by the first business day of September.

Q. Mr. Braun proposes the initiation of workshops to address the treatment of imbalance charges. Please respond.

A. My understanding is that Mr. Braun is proposing that an additional charge be added to a PPO bill which is for an imbalance service. Presumably, this service is being provided implicitly by the utility to PPO customers. While Ameren agrees that the utility is providing an imbalance service, the charge for this service on an individual customer basis, if it could be estimated accurately, would be extremely small. As a matter of priority, Ameren recommends that the Commission not initiate workshops on this issue at this time. As the competitive market develops in Illinois and as experience is gained regarding the cost of imbalance energy for retail loads, the Commission may wish to revisit this issue.

Q. New Energy witnesses O'Connor and Bramshreiber and CILCO witness Lancaster propose that the market value reflect the "transmission requirement" of regulatory capacity in the Ameren tariffs. Please respond.

A. Ameren would not be opposed to the inclusion of a component in the market value that reflects the fact that Ameren requires RES and CSMs to have a 15% reserve margin. Under Ameren's recently filed OATT Schedule 4A, reserve capacity is available from Ameren on a daily basis to RES supplying retail load. Ameren proposes that the pricing for this component of the market value be taken from Ameren's OATT Schedule 4A. Using the pricing and methodology specified in Schedule 4A, the Period A MVs that Ameren has previously submitted would be modified accordingly.

Q. CILCO witness Munson recommends that the Commission revisit the treatment of imbalance charges in the transition charge calculation. Please respond.

A. There is no need to revisit this issue. In Ameren's delivery services case, the Commission concluded that energy imbalance revenues were to be included in delivery services revenues for purposes of determining the transition charge. The Commission specifically rejected any adjustment to market value for energy imbalances. In Ameren's case, energy imbalance revenues were simply too insignificant to have an effect. They totaled just $218.63 for the test year, which, spread over 45 million kWh, meets anyone's definition of insignificant. As Ameren's delivery services revenue requirement is adjusted in subsequent rate cases, updated imbalance revenue figures will be reflected in the transition charge calculation.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.